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i-flex solutions' Rajesh Hukku: 'No One Dreamed That \$400,000 Would Become Almost \$600 Million in 13 Years'

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In 1992, Rajesh Hukku, then head of Citicorp Overseas Software, spun off Citicorp Information Technology Industries Ltd. (CITIL), now called i-flex solutions, from the giant financial institution. Citi had decided that software wasn't its business, but invested \$400,000 in the venture because of its confidence in Hukku and his associates.

Good call. Five years later, i-flex launched FLEXCUBE, an integrated software package for consumer, corporate, investment and internet banking, and asset management. Since then FLEXCUBE has been sold to more than 300 banks in 120 countries. In early March, International Banking Systems, an independent research company based in the U.K., rated FLEXCUBE the best-selling so-called core-bank system software for the fifth straight year.

In the December quarter of its 2006-2007 fiscal year, which will end March 31, i-flex revenues rose 39% to Rs. 5.5 billion (\$126 million) and net income rose 38% to Rs. 773 million (\$17.7 million) over the same quarter in 2005, according to U.S. Generally Accepted Accounting Principles. The shares of the Mumbai-based company, which went public in 2002, are sold on India's National Stock Exchange and the Bombay Stock Exchange and recently sold at around Rs. 2000 (\$45.8) a share. In 2005, Oracle bought out Citicorp's 42% interest for \$592 million -- a humongous return on Citi's investment in just 13 years.

Hukku, now 49, got an honors degree in electrical and electronics engineering from the Birla Institute of Technology & Science (BITS) in Pilani, Rajasthan. He worked for Tata Consultancy Services (TCS), India's largest software consultancy, before joining Citicorp's in-house software unit.

In the first of a two-part interview with India Knowledge@Wharton, Hukku spoke about i-flex's start and its strategy with [Ravi Aron \(http://www.wharton.upenn.edu/faculty/aron.html\)](http://www.wharton.upenn.edu/faculty/aron.html), a senior fellow at Wharton's [Mack Center for Technological Innovation \(http://emertech.wharton.upenn.edu/\)](http://emertech.wharton.upenn.edu/). The second part of the interview will appear in the next edition of India Knowledge@Wharton.

Aron: During the dot-com bust, i-flex stock doubled when almost every other high tech stock was going down. Why?

Hukku: Our whole business model was completely different. We were not really a dot-com. We were not truly an infrastructure technology kind of company, and we were not completely dependent on software services. We were a balanced product and services company with a globally hedged customer base. So while other information technology companies were slowing down after the Y2K [year 2000] and dot-com booms, there were people in Korea, Japan, and many other places still buying our packages. The slowdown affected probably all the services companies in India.

Aron: In 2003, *Time* magazine picked i-flex as one of 15 survivors of the crash. There were no traditional Indian IT majors like Tata Consultancy Services or Infosys.

Hukku: It had eBay, Logitech, Dell, TiVo, Google, etc., but we were the only Indian software company in the 15 chosen for that feature.

Aron: India has many fine services companies -- Wipro, Infosys, Tata Consultancy Services (TCS), Cognizant. But there is nothing truly made in India that dominates its category like yours. So is your story, in some sense, 'Made in Spite of India' rather than 'Made in India'?

Hukku: It's not in spite of India, but it's in spite of whatever was successful when we came into existence. In my opinion, almost all software companies followed the model of [Faqir Chand] Kohli, who pioneered the concept of the Indian software exports industry with TCS in the early 1970's, of exporting the Indian brain, or doing software services projects offshore. He, like every pioneer, had to work very hard. It is very tough, and it takes a very long time, but then it leaves a legacy for the followers to have an easier time. And that's the good news. The not-so-great news was that hundreds of companies that came after copied him. Basically it is a human tendency to take the route which is already a proven success.

Aron: That's why there are no other dominant "Made in India" brands?

Hukku: I think there are some great Indian brands now. Tata -- they've always been a great brand, and they are becoming more and more a global brand. Infosys, Wipro, these are great brands. But I would say that as a 'Made-in-

India' product; conceptualized, designed in India, by Indians, and sold with the stamp of 'Made in India' i-flex is a unique brand. Our product FLEXCUBE has been ranked as the number- one-selling core-banking system in the world in an international sales league table compiled by International Banking Systems, a U.K.-based, independent research company.

There are 60 or 70 such products, mostly American banking systems, European systems, some Asian. We launched the product only in 1997. For 1997, we were at number 16. In the second year we were at number nine. We were number two in 1999, in the third year, and since 2002 we have been number one.

Aron: What did you do differently?

Hukku: We decided to be great software people who also understood the business of our customers -- the financial institutions around the world. We are normally differentiated as India's first globally successful product company. And that's correct. But essentially what we have created is an end-to-end solution provider to the financial institutions. We are a product company. We're also a services company. We do technology deployment and we also do high-end consulting and domain specialist business process outsourcing.

It's a constant innovation of solutions. It's not that we are smarter than anyone else. I believe that most Indian companies have the same kind of brain. But it's just the kind of business model that we started with. And I can guarantee you that five years from now, there will be many famous product companies growing out of India.

Aron: Why did Citibank invest in a software company?

Hukku: Basically, what they said was: 'We like you guys. We respect that you can do something great. So we will put our money into it. But we can't put in management mind-share because it is not our core business to sell software.' We had a deal which, in hindsight, was the best combination, because you get the money and you don't get controlled. And they were really honest. They never interfered with us. Also, as all our customers were their competition, they never asked us: 'Can I find out things about your other clients?'

There was another understanding at that time: 'Please don't come back asking for business from Citibank.' So we started as a child of somebody who said: 'I won't have management share in your company, and by the way, I'm not even going to give you any business.' No one at the time, including me, ever dreamed that the \$400,000 they put in would become almost \$600 million in 13 years.

Aron: How did you survive?

Hukku: We had some debt in the initial years but we very quickly got out of it. We always had our head in the clouds, but our feet were on the ground. While we always wanted to build the next generation stuff, on day one we were selling professional services, we were doing consulting, and we were also trying to survive by spending very little money. We decided early on that we were not going to go to the U.K. or the U.S. because we couldn't even afford the airfare. We said, 'Let's go to Africa. That's all we can handle right now.'

We got the rights to the legacy MicroBanker product from Citicorp Overseas Software, enhanced it, and started selling it in Africa. In 1995, MicroBanker was number 1 in the league tables, because we sold it to 117 banks, mostly in Africa. The money we were making on the services, consulting, MicroBanker, etc., was used to fund the creation of our dream product -- FLEXCUBE.

Aron: What was the initial rationale of starting the company?

Hukku: I remember one of the Citibank chiefs asking me, "Why should I start the one-thousand-and-first software company in India?" That day we told him that we were going to be the first company which would be 100% focused on understanding the business of the customer. So the customer cannot say: "These guys are great techies, but they don't understand my business." And we have lived up to the original dream of what we promised to create. We're proud to be techies. But I think at least 25% of our people today can walk onto the trading floor and talk to a trader without the trader saying: 'He's just a techie.' We could go to the operations head of a bank and tell him: 'Hey, you're running it this way, but in Chile, it's done in a different way, in Moscow, it's done in a different way.'

The second guiding principle was to be global. Whatever we build should have global significance -- like a can of Coca Cola. We realized that in the services outsourcing business, America was the main destination, because the business model was applicable to certain countries with a huge cost gap, as well as capability and maturity in the technology departments to be able to outsource. We said that's a very big limitation for the whole industry to be dependent on one country. Following this principle, we have had a unique achievement of having won and serviced financial institution customers in more than 125 countries in a short span of less than 15 years.

And the third principle was that we would take the customer orientation to the fullest extent. Every few years we start a new focus area within our chosen niche of financial applications. To give you an example, just three years ago, we had no offering or investment in the risk and compliance area. It became clear to us that this was a new challenge that would have to be handled by financial institutions, big and small, all over the globe. It's not that

banks were not compliant, but handling all the new regulations -- Basel-II, Sarbanes-Oxley, Patriot Act, and more -- is a challenge for even the biggest banks of the world. So we decided to invest big time in the area of Risk and Compliance. We created a product called Reveleus. We acquired an operations risk product and created the Reveleus Ops Risk engine.

When we started the investment it was purely driven by our customers' future needs, and based on our focus, we have quickly become a powerful thought leader in the areas of risk and compliance for the financial industry. Three of the top five U.S. banks have chosen Reveleus for their Basel-II compliance; and it has been in the leadership spot almost since its launch.

Aron: That's an important statement.

Hukku: Yes. But it has been tough not to stray from the founding principles. We're perhaps the only IT company from India who made \$0 from Y2K. It's not that we were sleeping somewhere at that time. We made a conscious decision to stick to the value-addition paradigm and the original principles. We were looking five years ahead. We wanted to build something that would be transformational, not just very tactical. Our head was still in the clouds. We were building a core-banking system that would be better than anything that existed anywhere in the world. And we were building domain expertise. Right from the beginning, we said 10% to 15% of the staff have to be bankers, because how else will I learn the domain?

Aron: So why would a banker come to you, a small fledgling company? What did you offer him?

Hukku: We offered him something new and exciting. There are so many bankers who are not technology graduates, but they are meddling with computers and they find it very exciting. They are not computer science graduates, have not written computer programs, but they are computer savvy. We offered them a position as the guru, in a way. You come teach us what you know about banking. Of course, a lot of us had a lot of background from Citibank, so it was not as if we were starting from zero. And they loved the opportunity to work for a technology company. Maybe some of them came because we wanted to be global, and we were related to Citicorp.

Aron: Clearly you owe your early growth to Africa. What's your market share in countries like Tanzania, Kenya, Nigeria?

Hukku: Africa is a place that is closest to our hearts because that is where we started, where we got our first big break. Within Africa, I think we are in 30-plus countries, even the small islands nearby, like Seychelles. And the largest ones for us are Egypt, Kenya and Nigeria depending on how you count it. I would say in several countries we have a 25% to 45% market share, in terms of the number of banks using our products. If you count the number of transactions -- because some of those banks are some of the largest banks -- it could be even more. In Egypt, about 40-plus% of the retail banking transactions probably pass through FLEXCUBE.

In the very early days when we didn't even have FLEXCUBE, but MicroBanker was our product, it was rapidly expanding. I was visiting Nairobi, Kenya, and I see this big billboard which is a technology advertisement for job recruitment. In big letters, it said: 'Wanted. IT people, MicroBanker experience essential.' There were so many banks that had MicroBanker, there were very few IT people and they needed the skills.

Aron: You also got an award for your technical work from the President of Chile in 2005.

Hukku: It is called the "Order of Bernardo O'Higgins, the Grand Official" -- the highest civilian honor conferred on foreign nationals by the Republic of Chile. This award was given during the presidency of Ricardo Lagos, and I was truly humbled to receive it. The order is similar to what the OBE is for the U.K. The citation explained the services to Chile's digital development and the role played in making available state-of-the-art banking software to the Chilean financial services sector. The citation is accompanied by a beautiful golden star-shaped medal, on a ribbon to wear it on the neck, and an official lapel pin signifying the Order. I will cherish this recognition forever.

Aron: What are you doing in Chile?

Hukku: Sometime ago we were chosen by Banco de Chile, one of the oldest and largest banks in Chile, as a partner in their 'transformational endeavor' called Project NEOS -- a truly next-generation platform for banking. They have chosen our product, FLEXCUBE, and we are helping them transform their core technology. Chile is pretty advanced in digital technology, but even for that, it's a pretty advanced project.

Aron: And FLEXCUBE is their banking platform of choice?

Hukku: Yes, FLEXCUBE is replacing and enhancing their core-banking system. For the first time, an Indian company started helping Chilean banks reengineer their core-banking technologies. Chile takes a lot of pride in its leadership in digital technology in Latin America, and rightfully so. For example, 70% of their income tax returns are handled online.

Aron: You acquired expertise in your customer's domain. It was possible for you because you began as a part of Citicorp, with very deep integration with the world's most diversified financial services company. How can other

companies hope to do this without that history?

Hukku: I think that the creation of a consumer product essentially requires two or three things. The first is a few people who actually understand the domain already. Some of our first people had worked with Citibank for 10 or 15 years, so they understood a little bit already. With that understanding, you have to identify a problem that is either not solved, or that is solved in a very inefficient way. You have to come into a space that is not completely occupied and predict that this could become very big -- if someone has a solution for it. Or come into an already occupied space, but give an alternative which is better, faster, cheaper, and more efficient. So that is what is important. Steve Jobs created the iPod and now the iPhone. These are not rocket science, technologically. I'm sure he will keep coming back with his next great product and again catch people unaware.

The second thing is capital. Even in 1992, there was not enough capital. Today, the scenario has changed. If three people with Indian-sounding names come in with an IT business plan and an idea, I'm sure there will be at least three financiers ready to support them. So capital is not a problem today. If you can identify the idea, the capital will be there.

After that, it is pure perseverance. Highly intelligent people will tell you that you will fail, you will go down. But you have to stick with it, and say: "I am going to do it. I am going to do it." Your own friends -- and your competitors, of course -- will put you into trouble now and then. So you have to learn how to persevere and bounce back again and again.

Aron: I do want to go back to something you said about applying expertise in the domain. How can products come out of India for some of the biggest industries, like retail?

Hukku: The recipe is not very complicated. The germination has to be an idea that improves the life and business of the target customers. An idea can come to anybody. Then you have to assemble a team. The first team you have to assemble doesn't have to be in the hundreds; it can be a few who have lived in the industry, who have grown up as operations people in that industry. For example, let's say we're talking about retail. How do we automate retail? How do we check inventory? I'm sure you'd have to search through your friends' network, or through people you know and find someone who has spent the last 15 years actually running retail.

Aron: But not from India. It has to be Saks Fifth Avenue, a Wal-Mart or a JC Penney. Indian retail operations are so backwards in so many ways, compared to what is happening in the West.

Hukku: I understand your point, but I am sure in a short time it would be world class, too. We did not have any American or European bankers when we started. We took all the bankers from Indian banks, from Bank of India, from Reserve Bank of India, from smaller financial institutions. And they did not have all the finesse, or hands-on experience dealing with all the complexities of derivatives and options. But they had the basic understanding of financial institution applications and operations and were very fast learners.

I personally believe that one of the reasons that India and Indians are doing so well is because we have a strong will to learn and survive with very few resources. I would go to the extent that even if somebody has not worked at the top end of the industry, it is okay to have the basic understanding. One can still think of things that can leapfrog ahead. We are leapfrogging. Today's banking systems in Asia are probably better in many ways than systems used by banks in the United States.

Aron: Give me an example.

Hukku: Banking systems. An HDFC [Housing Development Finance Corp.] bank system is better, more flexible and cost-effective than the systems that 6,000 community banks have in the United States. That is leapfrogging.

The world is all worked up today about global warming and energy production. In India we already have locally built products, like biogas, that are much greener than conventional energy. You can say these are unsophisticated, but if you can actually get an opportunity to refine the basics, it can actually be better, faster, cheaper than anything. That's what the leapfrogging effect is.

Aron: Okay, let's push this. For a long time, Indians have learned to survive in the absence of resources. We've learned to survive in spite of them and prosper. Tell me a little bit more about that.

Hukku: I think in a way, shortage catalyzes innovation. Necessity is the mother of invention, as they say. I'll give an example of my own engineering college. I personally feel that BITS, Pilani, has generated some of the most talented Indian innovators, entrepreneurs, professors, scientists and CEOs. Sabeer Bhatia of Hotmail is a great example. The university itself was an innovator in education. They started the "You can finish your five-year degree in three years" fast-track, and many firsts in Indian education.

But more importantly, I feel that the motivation -- let's do something new -- really was born at Pilani. Because the campus is far out in the [Rajasthan] desert, you're out there on your own and we had to improvise a lot. The labs were good, and the professors were very good. But that was it. Outside the campus it was just a village. There was

a little bus stop where we had three *chai* shops, and a tiny movie theater where we sometimes saw movies standing up because there weren't enough chairs. There was no television. So we created our own radio station. We created our own television on closed circuit.


So you have a good mind and you innovate, in spite of shortages. If you know what is needed but you don't have the resources, you will innovate to meet that need. And sometimes, what you innovate may be better than what the guy 10 years ago innovated and everybody is just copying.


Aron: In the first two years, when you went to Africa, your value proposition was, "Here is a package that will do everything that the American packages do, for a lot less." What is it now?

Hukku: I don't think that was exactly the proposition because the package we were selling in Africa was MicroBanker, a legacy product. But the value proposition to the banks in Africa was: "We are here to make it happen for you. We are here to make the whole thing successful for you." Yes, price performance was important for them, and we were, at that time, selling it according to the nature of the package, which was legacy, and according to where we were in our life cycle. But the difference was, the western companies would fly in, do a jazzy sales presentation, zap the guys, dump the software, and leave. It was too small for them to stay and support, like we did. So they did the sale, and then left it to some local vendor and went away. We had passion and better customer orientation. And our success was through word of mouth.

Today when we go to banks with FLEXCUBE or Reveleus, our problem is not to show to the bank, whatever the bank is -- the biggest bank in the world, or the most sophisticated bank -- that we can do it. People don't question that. Our biggest challenge is, when are they going to take that step of saying: "Okay, I'm going to throw away this 30-year-old clunky system, and I'm going to break the inertia and take a third-party package or reengineer it totally."

(The second part of this interview will appear in the next edition of India Knowledge@Wharton.)

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